No. 05-1056

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,
Petitioner,

v.

AT&T CORP.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SUPPLEMENTAL BRIEF FOR RESPONDENT IN RESPONSE TO BRIEF OF THE UNITED STATES

STEPHEN C. NEAL
JONATHAN G. GRAVES
NATHAN K. CUMMINGS
COOLEY GODWARD KRONISH LLP
One Freedom Square
Reston Town Center
11951 Freedom Drive
Reston, VA 20190
(703) 456-8000

SETH P. WAXMAN
Counsel of Record
JONATHAN E. NUECHTERLEIN
MARK C. FLEMING
WILMER CUTLER PICKERING HALE AND DORR LLP
1875 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 663-6000

LAWRENCE J. LAFARO
THOMAS A. RESTAINO
AT&T CORP.
One AT&T Way
Bedminster, NJ 07921
(908) 532-1850

RULE 29.6 STATEMENT

The Rule 29.6 statement included in the respondent's brief in opposition remains accurate.

TABLE OF CONTENTS

Page

RULE 29.6 STATEMENT i

TABLE OF AUTHORITIES iv

SUMMARY 1

DISCUSSION 2

I. The Solicitor General's Answer To The First Question Presented Compels The Federal Circuit's Answer To The Second 2

II. Certiorari Is Unwarranted For Additional Reasons Unrelated To The Merits 8

CONCLUSION 10

TABLE OF AUTHORITIES

CASES

Page(s)

Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 (1972) 4

Deere & Co. v. *International Harvester Co.*, 710 F.2d 1551 (Fed. Cir. 1983) 10

Eolas Techs. Inc. v. *Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir.), *cert. denied*, 126 S. Ct. 568 (2005) 2

General Motors Corp. v. *Devex Corp.*, 461 U.S. 648 (1983) 10

Grain Processing Corp. v. *American Maize-Prods. Co.*, 185 F.3d 1341 (Fed. Cir. 1999) 10

Oncale v. *Sundowner Offshore Services, Inc.*, 523 U.S. 75 (1998) 4

Pellegrini v. *Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir.), *cert. denied*, 543 U.S. 1003 (2004) 5

Waymark Corp. v. *Porta Systems Corp.*, 245 F.3d 1364 (Fed. Cir. 2001) 4, 5

STATUTES AND RULES

35 U.S.C. § 271 ..... *passim*

35 U.S.C. § 284 9

Sup. Ct. Rule 15.8 1

LEGISLATIVE MATERIALS

Amendment in the Nature of a Substitute to H.R. 2795, the "Patent Act of 2005": Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 109th Cong., 1st Sess. (2005) 8

BEST AVAILABLE COPY

TABLE OF AUTHORITIES—Continued

Page(s)

Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcommittee *on Courts, the Internet, and Intellectual Property of the House Committee on the Judiciary*, 109th Cong., 1st Sess. (2005) 7

Patent Reform Act of 2006, S. 3818, 109th Cong. (2006) 8

130 Cong. Rec. H10525, *reprinted in* 1984 U.S.C.C.A.N. 5827 8

OTHER AUTHORITIES

American Heritage Dictionary (2d coll. ed. 1991) 3

Bradley, Curtis A., *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int'l L. 505 (1997) 6

Chisum, Donald S., *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 Va. J. Int'l L. 603 (1997) 7

Respondent AT&T Corp. respectfully submits this supplemental brief in response to the brief filed by the Solicitor General on September 29, 2006. *See* Sup. Ct. Rule 15.8.

SUMMARY

1. Although the government ultimately disagrees with the judgment below, it supports the Federal Circuit's analysis on what should be the dispositive issue in this case. Addressing the first question presented in the petition, the Solicitor General recognizes that "intangible software"—a sequence of 1s and 0s—can be a "component" of a patented invention under 35 U.S.C. § 271(f). U.S. Br. 10. Given that answer, the only remaining question is straightforward: Did Microsoft *supply* the "intangible software" at issue here to its foreign contractors with the intent that it would be "combin[ed]" with millions of computers "in a manner that would infringe [AT&T's] patent if such combination occurred within the United States"? 35 U.S.C. § 271(f)(1); *see also id.* § 271(f)(2). That is precisely what Microsoft did, and the decision below is thus entirely correct.

The government reaches a contrary conclusion only because, in answering the *second* question presented in the petition, it inexplicably forgets its own answer to the *first* question presented: that the "component" at issue is "intangible software" (U.S. Br. 10), not the particular physical media (master disks, electromagnetic impulses, or hard drives) on which the software is transmitted and stored. The question in this case is not whether Microsoft has supplied foreign end users with "copies" of hard drives containing the relevant object code, but whether Microsoft has supplied the object code itself in the expectation that it would be combined with computers abroad. This basic misunderstanding pervades the government's brief. Moreover, the government's various policy rationales for artificially narrowing Section 271(f) are unsound on the merits and, in any event, misdirected. Congress, not the Judiciary, should resolve the complex current debate about the net effect of Section 271(f) on U.S. economic interests.

2. Quite apart from the correctness of the Federal Circuit's decision, certiorari is unwarranted for three additional reasons. First, as the Solicitor General acknowledges, Congress is currently considering legislation that, if enacted, would repeal Section 271(f) altogether and could require the Court to dismiss the writ as improvidently granted before it could decide this case on the merits. Second, the case law concerning Section 271(f)—and particularly Section 271(f)(2)—remains embryonic. Given the technical and economic complexity of the policy issues presented here, the Court should postpone review until after the lower courts have developed a body of case law addressing the application of this statutory provision across a range of factual contexts.

Third, it is by no means clear that the second question in the petition has much real-world significance. For example, regardless of how Section 271(f) is interpreted, it is undisputed that Microsoft separately infringed AT&T's patent under 35 U.S.C. § 271(a) by manufacturing and testing infringing devices in the United States. Microsoft must fully compensate AT&T for all foreseeable damages flowing from that infringement, including Microsoft's subsequent exploitation of its U.S.-tested product worldwide, and must place AT&T in the position it would have occupied but for Microsoft's original violation of Section 271(a). In this and other cases, a patentee's ultimate recovery for infringement under Section 271(a) would often approximate the recovery available under the Federal Circuit's interpretation of Section 271(f).

DISCUSSION

I. The Solicitor General's Answer To The First Question Presented Compels The Federal Circuit's Answer To The Second

1. AT&T agrees with the Solicitor General that Section 271(f) applies to all "components" of a patented invention, "not only tangible components." U.S. Br. 9; *see also Eolas Techs. Inc.* v. *Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir.), *cert. denied*, 126 S. Ct. 568 (2005). The Solicitor General correctly rejects Microsoft's attempt to exempt all "intangible soft-

ware" components from Section 271(f). U.S. Br. 10. The Solicitor General likewise explains that Microsoft's analogy to "design information" and "blueprints" makes no sense because, unlike software, they are not themselves "combined" into any infringing product. *Id.* at 8. AT&T therefore agrees with the Solicitor General that the first question presented does not warrant this Court's review.

Once the first question is resolved as the Solicitor General advocates, the second question is simple: Did Microsoft "suppl[y]" the software—the Windows object code incorporating the speech coder/decoder—to foreign computer manufacturers for "combination" with other components into devices that, if made in the United States, would infringe AT&T's patent? 35 U.S.C. § 271(f). There is no more straightforward way to describe what Microsoft has done. To "supply" means to "make available for use; provide" or to "furnish or equip with." American Heritage Dictionary 1222 (2d coll. ed. 1991). Here, the Windows software—an intangible sequence of 1s and 0s—is present in the foreign-made computers *only* because Microsoft "provided" or "furnished"—in a word, *supplied*—it from the United States, via golden master disk or electronic transmission.[1]

Although the government pays lip service to "the statutory text" (U.S. Br. 11), it offers no actual textual analysis of the word "supplied." Nor does it address the many cases in which courts and, indeed, Microsoft's own patents refer to the transmittal of software code as "supplying" software. Opp. 17-18. Instead, it rejects the Federal Circuit's conclusion only because, in turning from the first question presented in the petition to the second, it forgets its own characterization of the "component" at issue. Rather than ask

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[1] The Solicitor General's suggestion that the Federal Circuit "all but acknowledged" that Microsoft did not "supply" the software from the United States (Br. 13) simply misconstrues the Federal Circuit's language. The Federal Circuit followed an interpretation of "supplied" that comported with the ordinary meaning of the word, the business practices of the software industry, the purposes of the statute, and the need to avoid absurd results. Pet. App. 6a-10a.

whether Microsoft supplied *software*—intangible 1s and 0s—for combination with computers abroad, the government asks whether Microsoft supplied individual "copies" of "physical[] embodi[ments]" of software "in the varied orientation of particles in the magnetically sensitive coating on the surface of the hard disk platters." U.S. Br. 9; *see also id.* at 10 (heading B), 12-13 & n.2. But as the government (correctly) recognizes earlier in its brief, the issue is whether Microsoft supplied the Windows object code, a binary sequence of numbers that "lacks physical existence." *Id.* at 8-9. The issue is *not* whether Microsoft supplied each of the individual physical containers in which that code is stored and transmitted.

Indeed, the Solicitor General's approach would carve out an atextual and arbitrary "software exception" to the scope of Section 271(f), given that *every* provision of software necessarily involves "copying" it, in the sense of "physically embod[ying]" it in a new medium such as a new hard drive. U.S. Br. 9. But there is absolutely no indication that Congress meant to treat software—of which it was clearly aware when it enacted Section 271(f)—any differently from any other components of patented inventions.

Nor is there any merit to the Solicitor General's apparent suggestion (Br. 12) that Section 271(f) narrowly codifies the position of the dissent in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972). While *Deepsouth* was the catalyst for the enactment of Section 271(f), "statutory prohibitions often go beyond the principal evil to cover reasonably comparable evils, and it is ultimately the provisions of our laws rather than the principal concerns of our legislators by which we are governed." *Oncale* v. *Sundowner Offshore Servs., Inc.*, 523 U.S. 75, 79 (1998). Indeed, Section 271(f) *necessarily* creates patent liability for a range of conduct beyond the type of activity addressed in *Deepsouth*. For example, under Section 271(f)(2), a defendant need not supply a "substantial portion" of an infringing product's components, nor need the component that *is* supplied be combined abroad to create an infringing product. *See Waymark Corp.* v. *Porta Sys. Corp.*, 245 F.3d 1364, 1367-1368

(Fed. Cir. 2001). Because Section 271(f) cannot be construed as simply a narrow response to *Deepsouth*, that case cannot provide a basis for carving arbitrary exceptions from the statutory language.

In any event, the Solicitor General is wrong to claim that the Federal Circuit's holding "den[ies] companies that design software in the United States," unlike companies in Deepsouth's position, "*any* avenue of competing abroad without the risk of massive patent liability under United States law for foreign sales." U.S. Br. 15. U.S. software manufacturers can still perform much of the fundamental research that goes into software development and, without fear of liability, convey their ideas to foreign manufacturers for the creation of software that, if combined with a computer in the United States, would constitute an infringement under Section 271(a). The Federal Circuit does not preclude a company in Microsoft's position from providing foreign companies with technical specifications—the software equivalent of blueprints—for particular types of software programs. *See Pellegrini* v. *Analog Devices, Inc.*, 375 F.3d 1113 (Fed. Cir. 2004). What Microsoft may *not* do is what it did here: supply the actual software that will itself be "combined" with devices that would infringe patents if manufactured in the United States.

2. The government's reliance on the "presumption against extraterritorial application" (U.S. Br. 16-17) is misplaced for three reasons. First, Microsoft has been held liable not for conduct performed abroad, but for conduct performed in the United States with the knowledge that the conduct may have particular consequences abroad. The domestic character of the infringement is particularly clear under Section 271(f)(2), which makes a company liable for sending specially-designed components out of the United States with the *intent* that they be combined in a manner that would infringe a U.S. patent, regardless of whether the components actually *are* so combined. *See Waymark Corp.*, 245 F.3d at 1367-1368.

Second, the presumption against extraterritoriality is designed for the typical statute in which Congress is silent

on the question of foreign applicability. It makes little sense to invoke that presumption as a basis for disregarding the language of a statute that, like this one, was enacted for the *sole and express purpose* of addressing the interplay between U.S. and foreign law. The very premise of Section 271(f) is that, in the circumstances defined by that provision's plain language, U.S. patentees should *not* have to rely exclusively on foreign patent protections, which would require the patentee to assume prohibitive costs to prosecute and enforce patents in scores of foreign jurisdictions, all simply to address *domestic* activity by U.S. companies like Microsoft that supply components of the patented invention from the United States.

Third, there is likewise no empirical basis for the Solicitor General's suggestion (Br. 17) that U.S. patentees could in fact secure sufficient protection simply by obtaining patents abroad, for "U.S. intellectual property laws are often more protective than those of other countries." *See* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 Va. J. Int'l L. 505, 506-507 (1997). And to the extent that some foreign jurisdictions *do* provide as much patent protection as U.S. law, as the United States has long urged them to do, companies in Microsoft's position could hardly complain about the Federal Circuit's decision as a policy matter, for such companies would face exactly the same liability abroad that they face in United States under the Federal Circuit's construction of Section 271(f). The only difference is that they would face such liability without imposing needless transaction costs on holders of U.S. patents (in the form of prosecuting foreign patents and securing foreign judgments). Neither Microsoft nor the Solicitor General identifies any neutral reason for imposing such economic waste on the developers of intellectual property.

3. The Solicitor General's policy concerns about the decision below are similarly without merit. The Solicitor General speculates, without any clear foundation, that applying Section 271(f) as written "*could* ultimately" lead some software companies to relocate operations abroad. Br. 18 (emphasis added). As an initial matter, this argument quarrels

not so much with the Federal Circuit's decision as with Congress's decision to enact Section 271(f) in the first place. No matter how it is interpreted, that provision has always presented the hypothetical risk that manufacturers of "components" would move their operations offshore. *See* Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 Va. J. Int'l L. 603, 607 (1997) (calling for repeal of Section 271(f)). Congress nonetheless decided to protect U.S. patentees from unfair competition by U.S. "component" manufacturers.

Furthermore, the Solicitor General's concern about offshore migration of *component* manufacturers focuses on only one isolated economic factor among many. The Federal Circuit's decision accomplishes the basic economic purpose of the patent laws: it encourages innovation in the U.S. by ensuring effective intellectual property protection, from which software developers (including Microsoft) unquestionably benefit.[2] The Federal Circuit's approach also removes the artificial incentives that Microsoft's position would give to *end-product* manufacturers (in this particular case, the foreign computer manufacturers) to locate their operations offshore in order to exploit Microsoft's proposed software exception to Section 271(f). Under Microsoft's position, any

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[2] As one senior U.S. executive recently testified:

> The software industry could achieve cost savings by moving its development and production facilities overseas, but it has chosen to remain in the United States and has flourished here, in no small part because the copyright, trade secret and judicial processes in the United States provide[] strong and effective protection for the intellectual property content of software products. There is no justification for letting them enjoy the benefit of our strong IP system for their own products while, at the same time, they are allowed to avoid exposure to other companies' patents when those same products are exported.

Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 109th Cong., 1st Sess. 202 (2005) (statement of Jack Haken, Vice President, Intellectual Property & Standards, U.S. Philips Corporation).

manufacturer that depends on U.S.-developed software gains substantial savings (*i.e.*, avoidance of patent royalties) by locating its manufacturing facilities abroad. A proper construction of Section 271(f) levels the playing field among jurisdictions by ensuring that patent-related costs will be the same wherever the manufacture occurs. *See* 130 Cong. Rec. H10525, *reprinted in* 1984 U.S.C.C.A.N. 5827 (stating that Section 271(f) was enacted "to avoid encouraging manufacturing outside the United States"). In sum, as U.S. executives have emphasized to Congress, there is no consensus about the net effect of 271(f) on U.S. economic interests.[3] The responsibility for resolving that empirical controversy rests with Congress, not this Court.

II. Certiorari Is Unwarranted For Additional Reasons Unrelated To The Merits

Even apart from the correctness of the Federal Circuit's decision on the merits, certiorari should be denied for three additional reasons. First, as the Solicitor General notes (Br. 19 n.4), Congress is considering a comprehensive patent reform bill that, among other things, would repeal Section 271(f) in its entirety. *See* Patent Reform Act of 2006, S. 3818, 109th Cong. § 5(f) (2006). Although AT&T and others vigorously oppose such a repeal, the pendency of this bill shows that Congress is fully capable of amending the patent laws if it reverses course and concludes that Microsoft's pol-

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[3] There is currently a sharp difference of opinion within the IP stakeholder community as to whether, in the future, Section 271(f) will result in a net increase or decrease in U.S. jobs. Those who favor its repeal argue that Section 271(f) discourages certain jobs (such as software design jobs) from remaining in the U.S., while opponents of the repeal just as passionately argue that Section 271(f) protects other kinds of jobs (such as assembly jobs) from foreign outsourcing.

Amendment in the Nature of a Substitute to H.R. 2795, the "Patent Act of 2005": Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 109th Cong., 1st Sess. 68 (2005) (statement of Phil Johnson, Chief Patent Counsel, Johnson & Johnson).

icy concerns (echoed here by the Solicitor General) are valid. It also shows that, if certiorari were granted, the writ might need to be dismissed as improvidently granted if Section 271(f) is in fact repealed before this case is decided.

Second, this Court's review of Section 271(f) would be premature. There are very few decisions interpreting that provision in general and Section 271(f)(2) in particular. That paucity of case law is significant because, as the Solicitor General acknowledges, similar Section 271(f) issues could arise in a host of different contexts, some involving software and some involving "other high-technology industries." U.S. Br. 18. If this Court were to intervene at this early stage in the judicial consideration of Section 271(f), it would pretermit the case-by-case analysis across a range of diverse technological settings that, over the long term, would likely produce the soundest body of precedent in a complex legal field.

Third, further consideration in the lower courts may well confirm that the parties' interpretive dispute about Section 271(f) has little ongoing practical significance in the first place, given the availability of alternative damages theories that could subject defendants in Microsoft's position to the same general degree of liability even if the decision below were reversed. For example, quite apart from Section 271(f), Microsoft indisputably infringed AT&T's patent under Section 271(a) by making and using an infringing device *in the United States* in the course of developing, testing, and debugging the Windows software. *See* Pet. App. 42a, 45a.[4] But for that enormously consequential threshold act of infringement, Microsoft would not have developed the final

[4] *See* 35 U.S.C. § 271(a) ("[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States . . . infringes the patent."). Moreover, even apart from this threshold violation of Section 271(a), the Solicitor General appears to agree (Br. 16) that sending a golden master disk or an electronic transmission to a foreign computer manufacturer constitutes, under Section 271(f), at least "one act of supply." Even "one act of supply" renders the infringer liable for "damages adequate to compensate for the infringement." 35 U.S.C. § 284.

version of the software that it later supplied to its computer manufacturing customers in the United States and abroad.

A patentee that successfully claims infringement is entitled to "full compensation for 'any damages' [the patent owner] suffered as a result of the infringement," *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983), a recovery measure that includes "any foreseeable lost profits" that the patentee would have earned "'but for' the infringement," *Grain Processing Corp.* v. *American Maize-Prods. Co.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999). Thus, a defendant must make a plaintiff whole by placing it in the same position the plaintiff foreseeably would have occupied if the defendant had committed no infringement at all.[5] For that reason, it is far from clear that resolution of the legal issues presented in the petition will have "ongoing practical importance" (U.S. Br. 17), given these alternative doctrinal bases for the same damages awards that would be available under the Federal Circuit's interpretation of Section 271(f).

CONCLUSION

The petition for a writ of certiorari should be denied.

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[5] A plaintiff could be made whole in this respect not just under a "lost profits" theory of damages, but also under a "reasonable royalty" theory. 35 U.S.C. § 284. For example, in negotiating a reasonable royalty for Microsoft to license AT&T's patent in order to test Windows software in the United States for ultimate shipment abroad, AT&T naturally would have taken into account the amounts that Microsoft expected to gain from foreign sales of computers that included the U.S.-tested software. *See, e.g., Deere & Co.* v. *International Harvester Co.*, 710 F.2d 1551, 1558-1559 (Fed. Cir. 1983).

Respectfully submitted.

STEPHEN C. NEAL
JONATHAN G. GRAVES
NATHAN K. CUMMINGS
COOLEY GODWARD
KRONISH LLP
One Freedom Square
Reston Town Center
11951 Freedom Drive
Reston, VA 20190
(703) 456-8000

LAWRENCE J. LAFARO
THOMAS A. RESTAINO
AT&T CORP.
One AT&T Way
Bedminster, NJ 07921
(908) 532-1850

SETH P. WAXMAN
Counsel of Record
JONATHAN E. NUECHTERLEIN
MARK C. FLEMING
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 663-6000

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